

Message Text

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PAGE 01 KABUL 04998 110617Z

11

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TAGS: ECON, PINT, ECRP, AF

SUBJ: ECONOMIC HIGHLIGHTS OF DAOUD REGIME'S FIRST YEAR

REF: CERP 0003

1. SUMMARY: PRESIDENT DAOUD, IN HIS JESHYN DAY SPEECH FOR THE FIRST ANNIVERSARY OF HIS GOVERNMENT, SPOKE PROUDLY OF THE ACCOMPLISHMENTS OF THE REPUBLICAN REGIME DURING ITS FIRST YEAR. THE ACCOMPLISHMENTS HE LISTED WERE PRIMARILY ECONOMIC. DAOUD ACKNOWLEDGED AT END OF SPEECH THAT ACCOMPLISHMENTS TO DATE HAD NOT APPROACHED MEETING NEEDS OF AFGHANISTAN, BUT STATED THAY LAID A BASIS ON WHICH AFGHANS CAN BUILD. EMBASSY NOTES THAT THESE ACCOMPLISHMENTS WERE CONCENTRATED IN THE LAST QUARTER OF THE YEAR, AND ONLY GO PART WAY TOWARD OVERCOMING THE ECONOMIC DISLOCATIONS RESULTING FROM THE COUP D'ETAT ESTABLISHING THE REGIME, BUT AGREES THAT A BASIS FOR PROGRESS HAS BEEN LAID.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 KABUL 04998 110617Z

2. ACHIEVEMENTS LISTED IN SPEECH

DAOUD SPOKE OF IMPROVED ROAD AND AIR COMMUNICATIONS, IMPROVED BALANCE OF PAYMENTS, IMPROVED STATISTICS, INCREASED GOVERNMENT REVENUES DUE LARGELY TO IMPROVED COLLECTION PROCEDURES, REFORMS FOR GOVERNMENT ENTERPRISES, PRICE CONTROLS, INCREASED FOREIGN EXCHANGE RESERVES, INCREASED EXPLOITATION OF MINERAL WEALTH, ENCOURAGEMENT OF FOREIGN AND DOMESTIC PRIVATE INVESTMENT, AND MOST IMPORTANT, A BASIS FOR PROGRESS THROUGH A SERIES OF NEW LAWS INCLUDING A NEW FOREIGN AND DOMESTIC PRIVATE INVESTMENT LAW, (FDPIL) CUSTOMS TARIFF, AND PUBLIC ENTERPRISE LAW.

3. NEW ECONOMIC LAWS

MOST ANXIOUSLY AWAITED BY THE PRIVATE INVESTMENT SECTOR WAS THE REVISED FOREIGN AND DOMESTIC PRIVATE INVESTMENT LAW WHICH WAS PUBLISHED FINALLY ON JUNE 10, 1974. THIS LAW GOVERNS MOST NEW PRIVATE INDUSTRIAL INVESTMENTS, AND IS SEEN BY THE AFGHAN BUSINESS COMMUNITY AND BY EMBASSY KABUL AS A BAROMETER FOR GOVERNMENT'S ATTITUDE TOWARD PRIVATE ENTERPRISE AND FOREIGN INVESTMENT. PENDING ITS PUBLICATION, NEW INVESTMENT UNDER THE NEW REGIME WAS SEVERELY LIMITED, AND EVEN RAW MATERIAL IMPORTS FOR EXISTING INVESTMENTS WERE CURTAILED. THE REVISED LAW PURPORTS TO ENCOURAGE PRIVATE INVESTMENT BUT CLEARLY PROVIDES FOR CLOSE MONITORING OF THE PRIVATE SECTOR BY THE GOVERNMENT. IT IS, MOREOVER, RETROACTIVE, IN THAT PREVIOUSLY APPROVED INVESTMENTS HENCEFORTH FALL UNDER THE NEW LAW'S PROVISIONS. IT REQUIRES A MINIMUM OF 51 PERCENT AFGHAN OWNERSHIP. THIS PROVISION WILL CAUSE DIFFICULTIES FOR SOME EXISTING FIRMS, AND MAY RESTRICT THE SIZE OF FUTURE INVESTMENTS. HOWEVER, THE LAW IS OFFICIAL AFFIRMATION OF THE GOA'S CONTINUED INTEREST IN PROMOTION OF PRIVATE INVESTMENT, BOTH DOMESTIC AND FOREIGN. WITH THE PUBLICATION OF THE GOVERNMENT-APPROVED TRADE POLICY, WHICH STATED AS AN OBJECTIVE THE ENCOURAGEMENT OF NEW INVESTMENT, PARTICULARLY IN EXPORT INDUSTRIES AND THE REPEATED STATEMENTS BY PRESIDENT DAOUD AND OTHER OFFICIALS OF THE NEED FOR PRIVATE ENTERPRISE, THE PUBLICATION OF THIS LAW HAS ENDED THE WORST OF THE UNCERTAINTIES AFFECTING PRIVATE INDUSTRIAL DEVELOPMENT. IN ADDITION, PUBLICATION OF THE CUSTOMS LAW, NEW TARIFF CODE, AND THE GOVERNMENT ENTERPRISES LAW IN THE PAST MONTHS HAVE BEEN EVIDENCE OF A GOA FOCUS ON ECONOMIC MATTERS.

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PAGE 03 KABUL 04998 110617Z

WHILE THESE LAWS DO NOT SATISFY ALL, SOME INDUSTRIALISTS AND BUSINESSMEN ASSERT THEY ARE MORE COMFORTABLE WORKING AROUND BARRIERS THAN WITHOUT GUIDELINES AT ALL.

4. FOREIGN ASSISTANCE

FOREIGN AID PROMISES HAVE BEEN EXTENSIVE. THE SOVIET UNION HAS PROMISED AN ESTIMATED \$200 MILLION AID AND DEBT RELIEF PROGRAM. INDIA HAS AGREED TO PROVIDE ABOUT 200 MUCH-

NEEDED EXPERTS THROUGHOUT THE GOVERNMENT AND IN PUBLIC ENTERPRISES. IRAN HAS AGREED TO AN AID PROGRAM WHICH COULD BE WORTH AS MUCH AS \$2 BILLION REPEAT BILLION, AND THREE KUWAITI ECONOMIC TEAMS HAVE VISITED AFGHANISTAN LOOKING FOR PROJECTS, APPARENTLY SO FAR UNSUCCESSFULLY. US ASSISTANCE IS CONTINUING AND A NUMBER OF ADB, WORLD BANK, AND UNITED NATIONS PROJECTS ARE GETTING UNDERWAY.

5. INCOME ENHANCEMENT AND PROTECTION

THE GOVERNMENT HAS TAKEN A NUMBER OF STEPS TO INCREASE OR PROTECT THE INCOMES OF FARMERS, CITY DWELLERS, AND INDUSTRIAL WORKERS. THIS REGIME HAS NOT ONLY RAISED THE PRICE IT PAYS COTTON AND SUGAR BEET FARMERS FOR THEIR CROPS, IT ALSO PROVIDED MONEY TO THE MILLS TO ENABLE THE FARMERS TO BE PAID IMMEDIATELY INSTEAD OF AFTER THREE MONTHS AS HAD BEEN THE PRACTICE. THIS HAS NOT ONLY INCREASED FARM INCOMES, BUT HAS STIMULATED INCREASED PRODUCTION OF BOTH OF THESE IMPORTANT CROPS. THE GOVERNMENT ANNOUNCED SUBSIDIES OR PRICE CONTROLS ON MAJOR CONSUMER NECESSITIES, INCLUDING SUGAR, COTTON CLOTH, BREAD AND FLOUR, EDIBLE OIL, AND PETROLEUM PRODUCTS, AS WELL AS RESTRICTING PRICE RISES ON ALL CONSUMER GOODS PRODUCED IN AFGHANISTAN. IN ADDITION, IT ENACTED A NEW MINIMUM WAGE LAW PROTECTING PRIMARILY INDUSTRIAL WORKERS AND GOVERNMENT EMPLOYEES. MOST OF THESE WORKERS WERE ALREADY EARNING MORE THAN THE MINIMUM, BUT THE LAW STIMULATED SOME INCREASE IN WAGES.

6. MINERALS AND OIL

THE PROGRAM OF MINERALS EXPLOITATION WILL PROBABLY NOT HAVE IMPORTANT ECONOMIC SIGNIFICANCE. THE HUGE HAJIGAD IRON DEPOSIT STILL APPEARS TOO EXPENSIVE TO DEVELOP FOR MORE THAN DOMESTIC NEEDS. THE REPORTEDLY RICH COPPER DEPOSITS HAVE YET TO BE CHARTED FOR SIZE. THE EXPLOITATION OF BARITES, TALC, UNCLASSIFIED

UNCLASSIFIED

PAGE 04 KABUL 04998 110617Z

MICA AND MERCURY WILL PROVIDE A USEFUL BUT MINOR INCREASE IN TRADE REVENUES. FURTHER DISCOVERIES OF NATURAL GAS AND OIL MAY BE SUFFICIENT TO OFFSET PRICE INCREASES OF REFINED PETROLEUM PRODUCTS AND BY-PRODUCTS SUCH AS FERTILIZER AND SYNTHETIC TEXTILES, ESPECIALLY AS USSR HAS AGREED TO DOUBLE PRICE PAID TO AFGHANISTAN FOR NATURAL GAS, BUT NO ESTIMATES OF DEPOSITS INDICATE SUFFICIENT SIZE TO MAKE AFGHANISTAN LARGE EXPORTER.

7. GOVERNMENT REVENUES AND EXCHANGE RESERVES

SOME GOA IMPROVEMENTS (ALTHOUGH THERE IS A LONG WAY TO GO IN THIS AREA) IN COLLECTION AND ADMINISTRATION OF TAXES AND DUTIES, ASSISTED IN PART BY TWO USAID PROJECTS, HAVE CAUSED A MAJOR INCREASE IN GOVERNMENT REVENUES. A COMBINATION OF A SLOWDOWN IN IMPORTS PLUS SIGNIFICANT PRICE RISES FOR SEVERAL OF AFGHANISTAN'S MAJOR EXPORTS CONTRIBUTED TO A SHIFT FROM AN

ESTIMATED ELEVEN MILLION DOLLAR PAYMENTS DEFICIT TO A SMALL TRADE SURPLUS, AS WELL AS A JUMP IN THE COUNTRY'S FOREIGN EXCHANGE RESERVES. IMPORTS ARE LIKELY TO INCREASE, TO REPLACE DRAWN-DOWN STOCKS, BUT A COMBINATION OF INCREASED EXPORT REVENUE FROM SUCH PRODUCTS AS COTTON, KARAKUL, AND NATURAL GAS AND SOVIET DEBT RELIEF SHOULD BE SUFFICIENT TO MAINTAIN AFGHANISTAN IN A GOOD BALANCE-OF-PAYMENTS POSITION IN THE NEAR FUTURE.

8. COMMENT: THE ECONOMIC DISLOCATIONS AND UNCERTAINTIES FOLLOWING THE ESTABLISHMENT OF THE REPUBLICAN REGIME COST AFGHANISTAN TIME IN ITS STRUGGLE FOR DEVELOPMENT. THE NEW REGIME HAS NOW, HOWEVER, FOCUSED ON THE ECONOMIC NEEDS OF THE COUNTRY, AND HAS ESTABLISHED THE CONDITIONS FOR RENEWED GROWTH. THE EXTENT AND DIRECTION OF THAT GROWTH WILL DEPEND LARGELY ON THE GOA'S IMPLEMENTATION OF ITS NEW LAWS, AS WELL AS ON WORLD MARKET CONDITIONS AND THE DISBURSEMENT OF THE VARIOUS NEW AID PROMISES. PRESIDENT DAOUD IS AWARE THAT HIS REGIME MUST DO A GREAT DEAL MORE TO PROMOTE DEVELOPMENT. WITH PROSPECTS OF MASSIVE AMOUNTS IN FOREIGN LOANS BEING SPENT ON LONG-TERM INFRASTRUCTURE PROJECTS, AND WITH OLD LOANS BEGINNING TO COME DUE, AFGHNAISTAN MUST START NOW TO IMPROVE REVENUE-EARNING PROSPECTS IN AGRICULTURE AND INDUSTRY. PRESIDENT DAOUD STATED "TO OBTAIN THE DESIRED ECONOMIC PROGRESS DEMANDS A LARGER VOLUME OF INVESTMENT" AND INCREASED "SCOPE FOR FOREIGN INVESTMENT" IN NEW PROJECTS. THE GOA IN ORDER TO IMPROVE THE LIFE OF THE MAJORITY OF THE COUNTRY'S PEOPLE WILL INSTITUTE FUNDAMENTAL CHANGES INTO ALL

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PAGE 05 KABUL 04998 110617Z

ECONOMIC SECTORS...". UNTIL THE EXTENT AND INTENT OF THOSE CHANGES IS MORE CLEARLY SEEN, THE OVERALL EFFECT ON DEVELOPMENT OF AFGHANISTAN OF NEW REGIME STILL REMAINS TO BE DETERMINED.

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